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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 000317

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SUBJECT: AFTER SOUTH STREAM SIGNING, BULGARIA STRESSES
NABUCCO AND DIVERSIFICATION

REF: SOFIA 212

Classified By: AMBASSADOR JOHN BEYRLER FOR REASONS 1.5 b and d.

11. (C) Summary: As a counterweight to its January agreement with Russia on the South Stream pipeline, the Government of Bulgaria is working to show its commitment to Nabucco and diversification. It is hosting a series of high-profile European energy conferences focusing on Nabucco and energy security and pursuing a purchase agreement for one bcm of Azeri gas to be taken either through a hook-up to the Turkey-Greece-Italy interconnector or via Nabucco. It is investigating the possibility of a three bcm LNG terminal and trying to attract the placement of a new EU Energy Observatory in Sofia. All the while, Bulgargaz and the Ministry of Energy are moving forward -- slowly and quietly -- with South Stream. End Summary.

IT'S NOT ALL ABOUT SOUTH STREAM

12. (C) Since the high-profile January signing of the South Stream intergovernmental agreement (IGA), the GOB has worked to publicly reaffirm its commitment to Nabucco and diversification. In the first four months of 2008, President Parvanov made energy-focused trips to Azerbaijan and Egypt, and Economy and Energy Minister Dimitrov held energy discussions with counterparts from Nabucco member states, Greece, and numerous energy producers, among others. Bulgaria has proposed to host a major international energy conference focusing on Nabucco and diversification in early 2009, and smaller meetings of the Energy Charter Working Group on Transit and Tariff Issues in June 2008 and of the Energy Community in fall 2008. At the same time, the GOB is trying to create a buzz about Sofia as the ideal location for a new EU Energy Observatory that would be part of the EU's proposed early warning system on energy flows.

13. (C) Since the South Stream signing GOB officials have repeatedly stressed their support for Nabucco in international forums and in local media. Bulgaria has also been more vocal about what it sees as disorganization in Nabucco management. The GOB would like to see an IGA for Nabucco completed as soon as possible, but, according to Deputy Minister of Energy Galina Tosheva, it is discouraged by Nabucco Coordinator Van Aartsen's lack of focus on the process. Tosheva said Bulgaria recently wrote to Nabucco management to urge the appointment of an official who would actively oversee Nabucco progress.

ACTIVELY SEEKING DIVERSIFICATION

14. (C) Sofia is also more aggressively pursuing energy diversification. In March, President Parvanov secured verbal agreement from Azerbaijani President Aliyev to supply one bcm of Azeri gas that Bulgaria would take either through a hook-up to the Turkey-Greece-Italy Interconnector or later, via Nabucco (reftel). Bulgaria is now trying to get this agreement on paper. A working group from Baku is in Bulgaria the week of May 19 to hammer out an MOU. If they are successful, Minister of Economy and Energy (MOEE) Dimitrov and Bulgargaz officials will travel to Baku the following week for a signing. Deputy Minister Tosheva told us May 12 that Sofia and Athens have set up a working group to discuss the feasibility of an interconnector between the Bulgarian pipeline system and TGI.

15. (C) Bulgaria is also investigating LNG as a possible energy source. At Bulgargaz' request, the International Financial Corporation is performing a feasibility study of the placement of an LNG terminal on Bulgaria's Black Sea coast or at the Greek port of Alexandroupolis. Bulgargaz has also raised the feasibility of shuttle shipments of Azeri LNG across the Black Sea (with the placement of a liquification facility in Georgia.) The GOB looks forward to results of an on-going USTDA study of this alternative. Meanwhile, Bulgargaz has expressed interest in Iraqi gas, as well as Iranian gas "once that is possible." With Bulgaria's domestic consumption at 3.5 bcm/year, one bcm from Azerbaijan combined with three bcm from a potential LNG terminal could nearly eliminate Bulgaria's dependence on Russian gas.

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Bulgaria signed a non-transparent, long-term (to 2030) gas supply and transit framework MOU with Gazprom in December 2006, but Bulgargaz is under pressure to work out the details before its current supply agreements expire beginning in 2010.

MOVING FORWARD ON SOUTH STREAM - SLOWLY AND QUIETLY

16. (C) Progress on South Stream is moving forward, but slowly. Our MOEE and Bulgargaz contacts tell us Russia has been urging quick parliamentary ratification of the South Stream IGA, but the GOB (in opposition to state-owned Bulgargaz) prefers a slower pace, to allow for greater clarity on the project and time for Nabucco to catch up. Deputy Minister Tosheva said she is managing the ratification process in a way that balances the Russian desire for action with the GOB's need to protect itself. According to Tosheva, ideally the MOEE will be able to delay the ratification long enough to allow the MOEE to present the South Stream and Nabucco IGAs to Parliament simultaneously. Bulgargaz, which is decidedly more pro-Russian and pro-South Stream, is in negotiations with Gazprom on the setting up of a working group to perform what Bulgargaz Head of International Projects Denitsa Beyazova termed a "pre-pre feasibility study" on the Bulgarian portion of the project. The Russians, she said, have taken the position that such a feasibility study is not needed because "Gazprom already has a feasibility for the project." Gazprom says it will share this study once Bulgargaz signs a confidentiality agreement. According to Beyazova, there is a good chance that Bulgargaz will buckle to Gazprom pressure to simply accept the Russian feasibility study, which will allow the two sides to negotiate a shareholders agreement and set up a project company. Beyazova also expressed concern that Bulgargaz (to the MOEE's dismay) will not make adequate use of the international legal counsel the GOB hired (at USG recommendation) to protect itself when negotiating the all-important shareholders agreement.

MOEE CREATING MEGA-HOLDING

17. (C) In the midst of disagreements over South Stream, the MOEE and Bulgargaz are also at loggerheads over the GOB's decision to create an energy holding company that would suck profitable Bulgargaz into a company that includes less profitable entities such as the National Electric Company (NEC), the Kozloduy Nuclear Power Plant, the Maritsa-East 2 Thermo Power Plant and the Maritsa East Coal Mines. After full consolidation, the mega-holding will have revenues of 1.8 billion euros and assets of 4 billion euros making it one of the largest energy companies in the region. The GOB states it is creating the holding company to overcome the risk of its non-integrated companies being swallowed in a liberalized international energy market and to reduce corruption in the energy sector. Others say the GOB needs the mega-holding to raise capital for the building of the new nuclear power plant at Belene. Critics believe creation of the entity will effectively reverse the decentralization process in the industry and re-create a huge parastatal, hurting competitiveness and transparency and creating additional opportunities for political influence in the energy sector. Although the GOB announced there would be an international competitive tender for the mega-holding's management, odds-makers say former Minister of Economy and Energy Rumen Ovcharov, who left office in summer 2007 after a corruption scandal, is the leading candidate for the job. Tosheva said she expects the mega- holding to be operational by early 2009.

COMMENT

18. (C) The GOB has found its voice on Nabucco and diversification for several reasons. It is unhappy with the black eye it received after hurriedly signing on to South Stream in January, after repeatedly saying it was not ready to do so. It is also trying set itself up as a regional center where energy is produced (the new Belene nuclear power plant), pipelines cross (Nabucco, South Stream, Burgas-Alexandroupolis, AMBO and perhaps TGI), and decision makers meet (whether in international conferences or at the

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proposed EU Energy Observatory.) The GOB also appears to be taking stock of its options for diversification before Bulgargaz begins negotiations with Gazprom to fill in the details on the long-term gas transit and supply framework MOU it signed in December 2006. Such negotiations are necessary before the first of Bulgargaz's current long-term supply contracts with Gazprom expires in 2010. End Comment.

Beyrle